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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

INITIAL BRIEF OF THE CLASSROOM PUBLISHERS ASSOCIATION

The Classroom Publishers Association (CPA) is the principal representative of the classroom publishing industry in the U.S. mailing magazines, books and other teaching aids for use in the classrooms and Sunday Schools of America. It is estimated that CPA represents about 80 percent of the volume of classroom periodicals mailed under the classroom subclass in periodical mail. CPA's members publish approximately 70 classroom magazines and periodicals and more than 15 million magazines are mailed bi-weekly for students using the classroom periodicals postal rate.

Introduction

On January 12, 2000, the United States Postal Service, acting under Sections 3622 and 3623 of the Postal Reorganization Act (39USC §§ 3622 and 3623) filed a Request with the Postal Rate Commission for a recommended decision on proposed changes in domestic rates and fees and in certain mail classifications resulting in this Docket, R2000-1. These recommended postal rates, if adopted, would result in an additional fifteen (15%) increase on classroom publications, in addition to an increase of 221% since 1980. More significantly, the rates currently proposed to become effective in January 2001 represent increases of 65-75 % (depending on mail characteristics) over 1996 rates.

ORIGINAL

It should be noted that the Postal Service in its filing said rates for Periodicals would be simplified by combining nonprofit and classroom mailers with Regular Periodicals, and then giving nonprofit and classroom mailers a 5% discount off the Regular Periodicals postal rate. This discount would not be applicable to advertising pound postage.

Senator Thad Cochran (R.-MS), Chair of the Senate Governmental Affairs Subcommittee on International Security, Proliferation and Federal Services, introduced S.2686 on June 7, 2000. This legislation, if enacted, would implement the 5% discount postal rate. A companion measure, H.R.4636, was introduced in the House of Representatives on June 12, 2000 by Messrs. Fattah (D.PA), Hoyer, (D.MD), Davis (D.IL), and Owens (D.NY). It remains unclear whether this legislation will be enacted in the brief time prior to adjournment of the 106th Congress.

I. The Legislative Intent of Congress to Provide Classroom Publications with a Preferred Postal Rate is Being Eliminated by the Several Rate Increases on Classroom Publications Over the Past Few Years

A review of the legislative history behind the current classroom rate in periodical mail reveals that since 1947, there has been a long and continuous recognition by Congress of the importance of classroom publications to the education of America's school children and the need to establish postal rates for such materials at a level low enough to guarantee the continued ability of recipients to receive such materials.

In 1951, Congress considered and passed postal rate legislation, H.R. 2982, increasing postal rates, but classroom and religious instruction publications were exempted from rate increases. The Senate passed S.1046 and agreed with the House to exempt classroom publications from any rate increase.

In 1958, Congress once again considered postal rate legislation, and specifically the subject of classroom publications. While regular second class rates were further increased, the classroom rate remained the same.

H.R. 7927 which became P.L. 87-873 (October 11, 1962) involved a major revision of the postal rates and established the statutory “classroom rate” for classroom periodicals at sixty percent (60%) of the regular second-class rate.

In 1970, Congress passed the Postal Reorganization Act (P.L. 91-375). While generally transferring from Congress to the Postal Service the authority to set postal rates, Congress made sure that the Postal Service did not take away preferential treatment for classroom publications. As a result of this legislation, the present 39 USC §3626(a)(1) was enacted, reading in pertinent part as follows:

The revenues received from rates for mail under former section 4358 (classroom publications) .. shall not, on and after the tenth year following the effective date of the first rate decision applicable to the class or kind, exceed the direct and indirect postal costs attributable to mail of such class or kind (excluding all other costs of the Postal Service).

This section once again reaffirmed Congress’ long-standing policy that classroom publications and their recipients be protected from inordinate postal rate increases. This Congressional policy is based upon the legislature’s recognition of the strong public benefits derived from classroom publications and the need to ensure that postal rates do not prevent students across the nation from receiving such benefits.

Under this section, classroom publications should pay no more than their attributable costs which were then considered to be about fifty percent (50%) of overall costs associated with such publications.

It was originally thought with Postal Reorganization that classroom rates would be stable and there would be protection from inordinate postal rate increases. However, the opposite has been true in the 90's. Ever increasing attributable costs ascribed, whether properly or not, to classroom publications have closed the gap with regular periodical mail so that the differential is only about six percent (6%) and closing.

This was not what Congress intended and has created a very serious problem affecting the viability of the classroom publishing industry where these low-cost publications cannot absorb endless rate increases.

II. The Suggested 5% Discount for Classroom Publications Off the Regular Periodical Rate is Inadequate.

The Postal Service has recommended that classroom publications be combined with nonprofit periodicals and then the combined category be given a 5% discount off regular periodical mail rates for the editorial portion.

This is inadequate. As stated above, classroom publications have been given preferential treatment by Congress since 1951. In 1962, Congress established the statutory "classroom rate" at sixty percent (60%) of the regular periodical rate. Since the Postal Reorganization Act of 1970, classroom publications have generally maintained this differential with respect to regular periodical mail until 1996.

In MC96-2, the Commission maintained that the record did not support a finding that classroom revenues would meet or exceed attributable costs, as required by statute and issued an order (No. 1125 – July 19, 1996) directing the Postal Service to provide further data and information on classroom publications. Docket MC96-2 was reopened by the Commission. The Postal Service proposed a short-term solution of applying prior and post classification reform non-profit rates to classroom mail forming a "hybrid" step 5

rate schedule for classroom mail and a step 6 classroom rate identical to non-profit rates. This approach was adopted and resulted in a two-step increase of thirty-five (35) percent in classroom postal rates.

In 1993, Congress passed the Revenue Foregone Reform Act which required preferred rate publications, such as classroom publications, to pay one half of the mark up on the "most closely corresponding regular-rate category." In the case of classroom publications, this would be regular periodical mail. The mark-up over attributable costs was 24% on regular periodical mail at that time. The legislation provided six years of two percent increases for classroom publications to reach one-half of the 24% mark-up. Congress indicated here it felt classroom publications should pay 12% less than regular periodical mail.

Because of unusual factors, the Postal Service in this proceeding has recommended only a 1.4% mark-up on regular periodical mail. But in the future, it may try to restore the 24% mark-up. (See Taufique-USPS-T-38 at p. 3 line 13).

We feel a restoration of a 25% discount off the Regular Periodical Rate for classroom publications is reasonable. We have approached Congress for an amendment to accomplish this. The cost is only \$2.8 million a year above the 5% discount included in S.2686, (which bill is supported by the Postal Service and the mailing community). A precedent exists in the law already. The rate for advertising for science of agriculture periodicals is 75 percent of the rate for advertising for regular rate periodicals in zones 1 and 2. (See Section 3626 (a) 15).

The increase in postal rates on classroom publications since 1996 constitutes "rate shock". Absorbing these increases, including the subject case, is a serious problem

because postage constitutes a large portion of the cost of these low-priced publications. Unfortunately, this extremely competitive and low-profit segment of the publishing industry will see further erosion as the result of this very large postal increase. Many marginally profitable titles may be dropped and others consolidated into one publication reducing the quality for a specific grade level.

III. The Attributable Costs for Classroom Publications Established Under the I.O.C.S. Sampling System are Widely Variant and Unacceptable.

Considerable effort has been made by the Postal Service to improve the revenue, piece and weight statistics for classroom publications by increased computerization of post offices across the U.S..

But, the problem lies with the minimal sampling of classroom publications to arrive at the cost data. The I.O.C.S. costing system that the Postal Service uses system-wide to gather cost data results in a tiny and erratic sample for classroom periodicals. This results in wide fluctuation in attributable costs for classroom periodicals over the last several years. For example, FY1989 costs per piece of 18.8 cents rocketed up to 28.2 cents in FY1990, then down to 11.9 cents in FY1993, and back up to 25.1 cents in FY1994. It is a true roller coaster!

In MC96-2, postal witness Degen (USPS-CT-2 at 6) testified that the small size of classroom mail makes it a volatile subclass in terms of postal data collection systems, and that we can expect some volatility in cost estimates that will complicate the ratemaking process.

This prediction has come true. The FY1996 attributable cost per piece for classroom publications was 23.5 cents. In FY1997, it dropped to 17.2 cents per piece, then in FY1999, it bounced back to 24.5 cents per piece.

Only 60 tallies out of 63 million classroom pieces were used to establish classroom costs in 1995, only 30 samples for determining mail processing costs and 30 for delivery unit costs. This is out of an annual mailstream of over 200 billion pieces of mail, and a periodical annual volume over one billion pieces. This is clearly inadequate, but it is understood that if the Postal Service would increase the classroom sample by tripling it, it would be prohibitive since it would increase Postal Service costs by millions of dollars.

Independent consultants for the Postal Service have testified before the Postal Rate Commission about the volatility of the classroom sub-class due to the small sample with a coefficient of variation of 24.07 per cent compared to 4.25 percent for non-profit periodicals. (Docket MC96-2, Degen, p. 11,12)

IV. Combining Classroom Publications with Nonprofit Publications in Periodical Mail Introduces Structural and Legal Problems and May be Counterproductive.

The Postal Service has long wanted to merge classroom publications into the nonprofit periodicals subclass to eliminate the costing problem that we discussed above. We have resisted this over the years for several very good reasons.

From 1951 to the present, classroom publications have maintained a separate subclass under periodical mail. The one time we were lumped into the non-profit category (R 90-1), the vast majority of classroom titles received a painful 55 percent rate increase.

The rationale for profit-making classroom publications is inherently different from the rationale for non-profit publications as determined by Congress in 1951 when they granted the classroom rate.

There doesn't seem to be any logic for forcing the two classes together, except for using the joint sampling data as an expedient financial cost measurement tool until a better and more accurate sampling system or approach can be implemented.

Classroom publications are usually bundled, palletized or sacked to five digit zip codes or carrier routes going directly to their destinations. Most classroom publishers exercise all the work-sharing opportunities possible for efficient processing through the mail stream, including presorted mail, palletization, plant loading and shipping directly to destination mail centers for bulk delivery by USPS. This extensive mail processing results in less in-office handling of the mail by the Postal Service and saves the Postal Service considerable money and differentiates it from the typical non-profit periodical mailing.

It is our view that there has to be a better solution than just merging classroom and non-profit mail into one periodical subclass. It is unfair to merge classroom publications with nonprofit publications based on the above facts regarding inadequate sampling and the widely variant mailing characteristics of the two classes of mail.

V. Processing Costs for Periodical Mail have been Overstated.

CPA, like all periodical mailers in this case, is confronted with sharp cost increases in categories such as mail processing, purchased transportation, and city delivery carrier cost.

The Periodicals Coalition has presented substantial and convincing evidence in this case concerning excessive Periodical mail processing costs. CPA supports the testimony of the MPA and of other periodical interveners which expose the unjustified escalation of costs supposedly caused by periodicals. The cost over-attribution limits the

discretion of the Commission to moderate rate increases for periodicals since the markup over attributable costs in this case is only 1.4 percent. See Taufique, (USPS-T-38) p. 3, line 13. The flexibility of the Commission to moderate markups because of ECSI or other non-cost factors enumerated in Section 3626(b)(3) of the Postal Reorganization Act are thus unavailable.

Further, there is little if any justification for a 2.5% contingency allowance for the Postal Service of \$1.7 billion. This item, when combined with a \$268 million request to cover prior-year losses, means that approximately two-thirds of the \$3 billion requested by the Postal Service in this case has nothing to do with current operations and costs.

A Periodical Operations Review Team (TEAM), a joint effort of mailers and the Postal Service to identify and reduce the causes of cost increases for periodicals, has come up with recommendations that will result in more than \$150 million in cost savings for the Postal Service in periodicals processing.

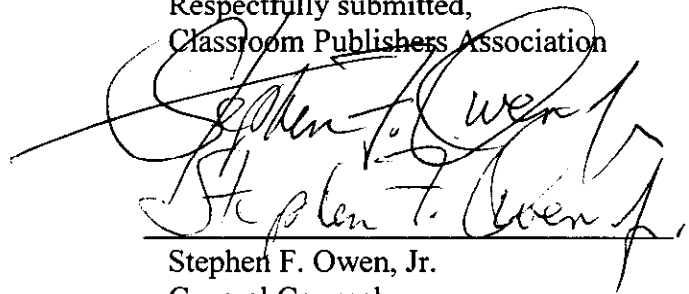
Rita Cohen (MPA-T-1) at page 34 of her testimony shows a reduction in TYAR costs for classroom periodicals from \$14.034 million per year to \$11.379 million per year to reflect the cost reduction programs she has identified in Section II of her testimony (See pages 5-19). In supplemental testimony, Ms. Cohen (MPA-ST-1) at p.1 finds TYAR costs for periodicals are \$1.9 billion, more than \$500 million less than the costs projected by Postal Service witness Patelunas (USPS-ST-44).

Conclusion

CPA has proposed an amendment to S.2686, sponsored by Sen. Cochran, which would provide a 25 percent discount for classroom publications off the regular periodical rate. This would restore a substantial portion of the historical 40 percent discount that

Congress established for classroom publications in 1962 as discussed above. This would solve the difficult problem of widely gyrating attributable costs caused by the unfair sampling system for our smallest periodical subclass and recognize the educational value of these low-cost publications and preserve their continuing availability and usage by America's school children. We ask for the Commission's understanding and support for this solution to a long-standing problem.

Respectfully submitted,
Classroom Publishers Association

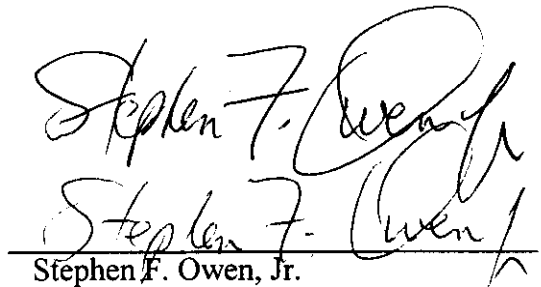


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Certificate of Service

I hereby certify that I have on this date served the following document upon all interested participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

Washington, D.C.
September 13, 2000



Stephen F. Owen, Jr.